

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

July 27, 1982
8:45 a.m.
Roosevelt Room

Attendees: The Vice President, Messrs. Regan, Block, Baldrige, Donovan, Pierce, Stockman, Harper, Fuller, Porter, Macdonald, Leland, Hormats, Angrisani, Jordan, Oglesby, Cicconi, Cribb, Bolton, Garrett, Bonitati, Nau, Bailey, Bledsoe, and Denend, and Ms. Dunlop.

1. Report of the Working Group on LDC Financial Problems

The Council reviewed two papers prepared by the Working Group on LDC Financial Problems dealing with the multilateral banks in debt rescheduling, and on four problem countries -- Mexico, Argentina, Sudan and Zaire.

Mr. Leland's presentation focused on whether or not the multilateral banks (MDBs) should be included in debt rescheduling efforts. Even though it appears inconsistent to exclude the MDBs in rescheduling, private banks and creditor governments prefer to do so because it allows the MDBs to continue to provide financing even after a country develops debt service problems. Every case of rescheduling except Poland has been accomplished with an IMF agreement. Mr. Hormats added that in most cases it is in the U.S. interest to exclude the MDBs from rescheduling. On the question of projects cofinanced by the MDBs and private banks, the working group felt that these loans should be subject to rescheduling.

The Council's discussion centered on the advisability of excluding the MDBs from debt rescheduling, the impact of a more conservative view among private banks on the availability of LDC financing, and the lack of congressional interest in increasing foreign assistance funds to offset shortfalls in available loans.

Mr. Leland outlined the financial outlook for four problem countries. Mexico has accumulated an external debt of roughly \$80 billion and must borrow approximately \$40 billion in the private capital market this year. In order to raise this amount, Mexico must implement austerity measures which will give the market confidence that it is serious about

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solving its debt situation. Argentina is in a similar situation to Mexico with a large external debt, much of which must be refinanced this year. The Falklands conflict has served to sharpen Argentina's financial difficulties. Like Mexico, Argentina is not prepared at this point to accept an IMF program. Sudan and Zaire are examples of seriously mismanaged economies. Both countries are important to U.S. security interests. Additional financing will be required for them until their economies can recover.

The working group concluded that the world financial system is sound and capable of handling the debt problems of countries likely to experience difficulties; however, the basic solution lies in these countries undertaking austerity measures which demonstrate they are serious about resolving their debt situation.

The Council supported the Working Group's recommendation that the Administration continue a policy of excluding the MDBs from multilateral debt reschedulings.

The Council requested the Working Group to follow closely new MDB procedures on cofinancing arrangements to assess their impact on rescheduling agreements and on the credit worthiness of MDBs.

The Council discussed the possibility of measures which the U.S. might take to assist Mexico in the near term and requested that the working group review this issue and report its findings to the Council.

2. Employment and Training Legislation

The Council reviewed a paper, prepared by the Department of Labor, on the status of employment and training legislation in the Congress.

Mr. Angrisani's presentation focused on a comparison of the Administration's proposal to the Senate passed bill and the bill pending in the House. The Senate bill incorporates almost all of the features contained in the Administration's proposal:

- o No public service employment, wages, stipends, or allowances.